

**Submission to GPOC from the
Department of Infrastructure Energy and Resources
In response to Issues Paper February 2000**

Indexation

Further to the discussions held at the 9th of March meeting between GPOC, DIER and Treasury representatives this department concurs with the Metro proposal that the present indexation using CPI does not adequately reflect the variation in cost inputs to the Metro business.

In addition, the department encourages the investigation of and formulation of an index which more accurately reflects the cost input variations experienced within bench mark type operations. That index may not necessarily conform to the advocated school bus index, however, in the absence of a more definitive model the SBI is considered more akin to the cost escalation factors of the Metro operation.

The Department also concedes, as genuine, the concern by Treasury that any index should not allow for automatic ratcheting of revenue in favour of potential efficiency gains. To that end the depart would support the introduction of an appropriate indexation method which held increases in "controllable" items subject to final approval and sign off.

Essentially each component of the indexation formula would need to be tested as to its validity prior to approval. Such justification, prior to any sign off, would require clear definition of the cause for any rises, action strategies adopted by metro to offset these rises and an estimate of the net impact.

In essence it is advocated that the indexation formula form the basis for an agreed process of negotiation and review between the provider and purchaser of services. This methodology is seen as being consistent with commercial partnerships which insist on transparency.

Return on Equity Issue

Whilst the Department acknowledges the need to include a return on equity into any bench marking or competitive tendering process, the need to include the associated cash transacting is not identified as adding significant value.

The Department would allude to issues of interest and taxation costs with the process.

Contractual control post July 2001

As indicated by the Transport Commissioner at the 9th of March meeting the Departments contract with Metro is to be extended for a period of 1 year from July 2000. That extension shall be conducted under a slightly modified contract. Modifications shall address some issues such as indexation. Major redrafting shall be undertaken in the period between the issue of the extension and the issue of the 2001

contract. The process of developing a contract frame work is in its inception, however, the following items are listed as representative of those under consideration and are provide as reference for GPOC consideration.

Service definition – Clearly defining the levels of service to be provided as part of the Government’s CSO. This service definition shall also include route and zone definition as a method of quantifying any future service level contraction. Zoning of the services shall also allow competitive bench marking.

Benchmarking – Booz Allen Hamilton have already conducted an efficiency bench marking exercise and the Department intends to utilise this documentation to assist in determining and gauging suitable service performance. (KPI’s). The document can be made available to GPOC upon request.

Performance Motivators – Consideration will be given to methods which both increase the efficiency and effectiveness (Patronage within defined CSO) of the Metro operation. Incentives to be considered could look at passing a % of reduction of CSO payment (tied to suitable KPI performance) back to Metro as a recognised and reported profit performance.

Indexation – As discussed above.

Mechanism for rationalisation of services - The contract will seek to provide Metro with the ability to subcontract services of other “Better Placed” operators/methods of transport to facilitate particular routes. One area of focus should be on the ability to aggregate metro and non Metro work into a highly efficient/optimised parcel. Additionally the use of smaller vehicles with more appropriate cost structures could be exercised if appropriate.